



PENNSYLVANIA PUBLIC UTILITY COMMISSION
COMMONWEALTH OF PENNSYLVANIA
HARRISBURG, PENNSYLVANIA

August 7, 2012

AUG 16 2012

Mr. Jeffrey D. Wiese
Associate Administrator for Pipeline Safety
Pipeline and Hazardous Materials Safety Administration
U.S. Department of Transportation
1200 New Jersey Avenue, S.E.
Washington, DC 20590

Dear Mr. Wiese:

This letter is in reference to your June 13, 2012 letter referencing Pennsylvania's Action Plan to address high-risk cast iron pipelines. As you know, Pennsylvania utilities have approximately 3,000 miles of natural gas cast iron pipeline currently in service.

On November 10, 2011, the Pennsylvania Public Utility Commission (Commission) issued a Tentative Order addressing certain key aspects of gas pipeline safety. Specifically, the Commission's Tentative Order addressed the following: (1) submission of Distribution Integrity Management and Integrity Management Plans (DIMP/IMP Plans) to the Commission's Bureau of Investigation and Enforcement; (2) cold weather leak survey requirements for natural gas distribution utilities' cast iron and unprotected steel pipelines (Frost Patrols); and (3) Natural Gas Pipeline Replacement and Performance Plans (PRP Plans).

As ordered, all DIMP/IMP Plans were filed with the Commission by November 30, 2011. Also, by Final Order entered December 22, 2011, the Commission directed that the utilities immediately commence Frost Patrols in accordance with the Final Order.

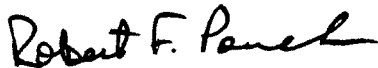
The Tentative Order also required Pennsylvania's major natural gas distribution utilities and city natural gas distribution operation to file PRP Plans for Commission review. The Commission directed that the PRP Plans should: (1) address pipeline replacement time frames; (2) propose the means by which the cost of the PRP Plan should be addressed in rates; and (3) demonstrate compliance with certain performance metrics, including a Pipeline Performance Metric.¹ The Commission will issue an Order addressing the Comments filed to the PRP Plan requirements shortly.

¹ The Pipeline Performance Metric is the utility's average rate of pipeline replacement during the ten years prior to the establishment of the Metric or the rate that will result in the replacement of all high-risk pipe within 20 years, unless the company demonstrates that a lower rate of replacement is in the public interest.

We have also worked closely with the Pennsylvania General Assembly to make the necessary statutory changes to facilitate the aggressive replacement of cast iron and at risk bare steel pipeline in the Commonwealth. With the recent passage of Act 11, establishing Pennsylvania's Distribution System Improvement Charge (DSIC) and allowing for gas utilities to make rate claims based on a fully projected Future Test Year,² we are confident that our gas distribution companies will use these new rate mechanisms to facilitate the replacement of risky pipe. On August 2, 2012, the Commission voted to adopt the Final Implementation Order establishing the processes and standards a utility must comply with in order to utilize the DSIC.

As you can see, the Commission is addressing the challenge issued by the U.S. Congress. We look forward to our continued partnership with PHMSA regarding gas safety issues.

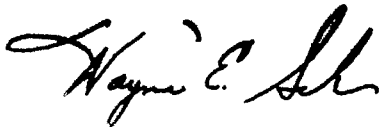
Sincerely,



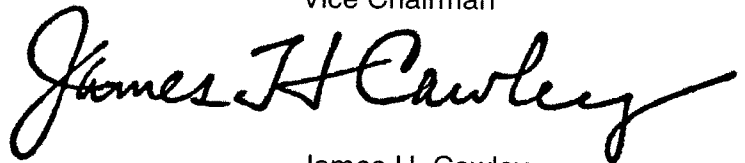
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² Act 11 defines a fully projected future test year as the 12-month period beginning with the first month that the new rates will be placed in effect after application of the full suspension period permitted under Section 1308(d) of the Public Utility Code (relating to voluntary changes in rates).